HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Vancouver and Abbotsford CMAs

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2017

Figure 1

Source: CMHC (F): Forecast

Figure 2

Source: CREA (F): Forecast
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Highlights[1]

- Supported by low inventories and strong population growth, the pace of new home construction is projected to remain well above the 10-year average through 2018 and 2019.
- The Vancouver resale home market is expected to operate at two speeds, with a higher level of activity in the apartment condominium and townhouse segments compared with the single-detached home segment.
- With a lower projected market share for more expensive single-detached homes, overall average price growth will be moderate, though results will differ by home type.
- Buoyed by net migration and a sustained imbalance between incomes and home prices in Metro Vancouver, demand for rental apartments is expected to remain high, resulting in continued low vacancy rates and upward pressure on rents.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

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New Ownership Market

After reaching an all-time peak of 27,914 housing starts in 2016, new construction activity is expected to moderate through the forecast period to the end of 2019. Despite this slowdown, starts are expected to remain elevated, with annual starts forecasted to exceed the 10-year average of 18,746 through 2019. While the number of housing starts in 2017 will be somewhat limited by the availability and costs of construction inputs, the continued elevated pace of construction activity will be supported by low inventories of both new and existing homes as well as continued strong economic and demographic fundamentals.

The large increase in housing starts in the first two quarters of 2016 is expected to lead to sharply increasing new home completions in the second and third quarters of 2018, but it is anticipated that these completions will be met by demand from the market, particularly given that many have been pre-sold.

Existing Home Market

Continuing a trend that began in mid-2016, the resale home market is expected to continue to operate in "two speed mode" through the forecast horizon. While remaining in the favour of sellers in some price brackets, the single-detached market segment will be characterized by lower sales, increased new listings, rising inventories and significantly reduced pressure on prices compared with the first half of 2016. In contrast, the townhome and apartment segments, which are more affordable, will continue to experience strong sales activity, moderate new listings, and low resale inventories, all of which will result in continued upward pressure on prices.

Figure 3

Source: CREA (F): Forecast
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Given that the single-detached segment is largely equity-driven and generally less affordable to buyers making an income-based purchase, the two speed market is expected to remain for the foreseeable future. As such, average price growth will be tepid compared with recent years, as the high-priced single-detached segment will see low growth, and affordability concerns will limit demand from some types of buyers.

Rental Market

Rental demand is expected to remain high through the forecast period, buoyed by positive net migration and a sustained imbalance between incomes and home prices in the metropolitan area. Rising home prices, especially for entry-level condominium apartments, will defer the flow of renters into homeownership as it takes households longer to save for a down payment. Vancouver's population is forecast to expand 1.4 % in each of the next two years, supported by growth in employment, further adding to rental demand.

In August 2017, there were 8,443 rental apartment units under construction, equal to 7.6% of the current universe of primary rental units in Metro Vancouver. As these units complete over the next two years, the vacancy rate is expect to rise slightly over the forecast period to 1.1% by 2019, although this remains low in absolute terms and reflects the strong demand for rental housing in the region.

Rent levels for purpose built-rentals are expected to continue to climb over the forecast period due to the increasing share of new, typically more expensive, rental units entering the market as well as rents for existing units rising to market levels with the turnover of long-term tenants.

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Economics and Demographics

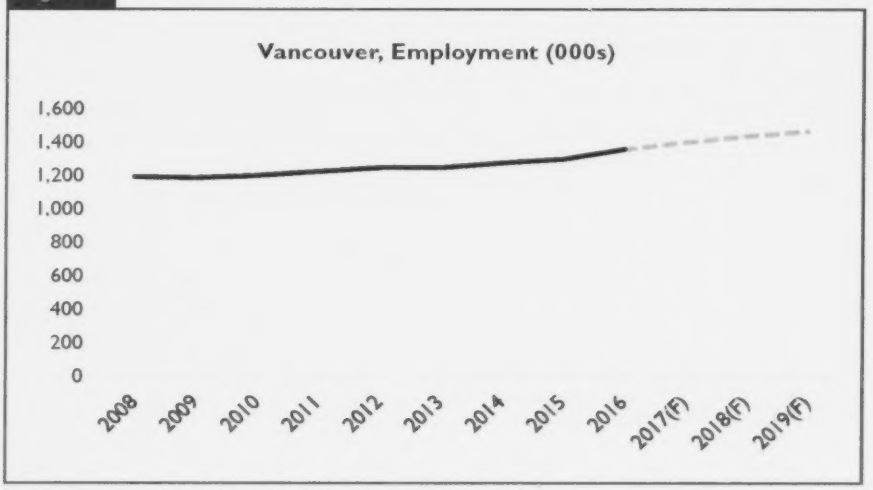
Growing demand for housing in the Metro Vancouver is expected to be supported by relatively low mortgage rates, steady population growth and continued strong job creation. In the first eight months of this year, employment grew by 33,200 jobs on a seasonally-adjusted basis, with the vast majority of growth in the full-time category. This employment growth is on top of 61,000 jobs that were added in the CMA in 2016. The economy and employment are expected to continue to expand at a pace more in line with historical averages and be supportive of housing demand in 2018 and 2019.

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Figure 4



Source: Statistics Canada (F): Forecast

Risks

Changes in the areas below could affect demand or supply and move the housing market into the wider range of our forecast outcomes.

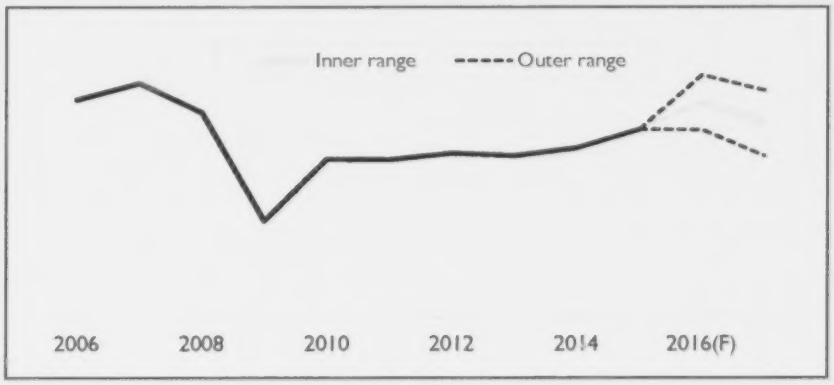
- The Vancouver market has been absorbing the impact of several provincial housing policy changes in 2016, namely the Additional Property Transfer Tax for foreign buyers and the BC Home Owner Mortgage and Equity Partnership program for first-time home buyers. Further policy changes could alter demand in particular segments of the market.
- The Financial regulators have announced policy changes around the qualification criteria for uninsured mortgages, which could have an impact on the home price buyers can afford.
- An increase in the number of sales and market share of single-detached homes could result in average prices rising further than forecast, as the high prices of single-detached homes have an outsized influence on the average.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary
Vancouver CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	4,374	4,622	5,169	4,540	4,800	4,405	4,795	4,240	4,700
Multiples	14,838	16,241	22,745	19,065	20,575	16,330	18,730	14,700	16,860
Starts - Total	19,212	20,863	27,914	23,755	25,225	21,135	23,125	19,160	21,340
Resale Market									
MLS® Sales	33,693	43,145	40,880	35,410	37,190	31,975	34,425	30,905	34,095
MLS® Average Price($)	812,653	902,801	1,017,228	1,008,000	1,052,000	1,003,500	1,104,500	1,006,500	1,143,500
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	1.0	0.8	0.7	0.8	1.0	1.1
Two-bedroom Average Rent (October)($)	1,311	1,368	1,450	1,530	1,610	1,680
One-bedroom Average Rent (October)($)	1,038	1,079	1,159	1,240	1,310	1,380
Economic Overview						
Population	2,481,896	2,507,420	2,548,740	2,592,346	2,628,420	2,664,398
Annual Employment Level	1,276,300	1,298,500	1,359,200	1,401,300	1,437,800	1,468,000

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This table presents resale data and forecasts for the Real Estate Board of Greater Vancouver (REBGV) area.This area does not include Surrey - Langley - White Rock or North Delta which are part of the Vancouver CMA but not within the REBGV boundaries.

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2017-2019).

Abbotsford-Mission Highlights

- A strong local economy, together with growing demand from potential Metro Vancouver homebuyers looking for new homes (i.e., spillover demand), will support higher levels of construction over the forecast period.
- Average MLS® prices will increase across all home types through 2018 and 2019 as inventories remain low.
- The primary rental market is expected to remain tight as average home prices continue to rise faster than wages.
- More affordable housing options and a growing local economy will attract more residents to the Abbotsford-Mission CMA over the next two years.

Figure 5

Source: CMHC (F): Forecast

Figure 6

Source: CREA (F): Forecast
MLS® is a registered trademark of the Canadian Real Estate Association. Forecast: CMHC

New Ownership Market

While expected to slow slightly from the heightened pace recorded in 2017, new home construction activity is forecast to remain strong in 2018 and 2019 as tight market conditions in Metro Vancouver will continue to push spillover demand for new homes into Abbotsford-Mission. With low inventories across all home types, developers will take advantage of the opportunity to increase construction levels to meet this demand after an unexpected increase in the number of households formed in 2016 as a result of higher intraprovincial migration. Multi-family homes, particularly apartment condominiums, will account for the majority of starts over the next two years, as these home types are more financially accessible to buyers than single-detached homes. As 2018 progresses into 2019, the pace of housing starts is expected to ease slightly as interest rates rise and more housing stock is added to the market.

Existing Home Market

The number of resales on the market will remain elevated as strong economic and demographic factors such as population growth and job creation continue to support the existing home market. Single-detached homes will continue to attract families to Abbotsford-Mission, as home prices in this segment are typically more affordable than those for comparable homes in other cities in the Fraser Valley Real Estate Board. The townhouse and apartment condominium segments are anticipated to account for a greater share of the resale market, as these types of homes usually sell for considerably less than single-detached homes, which may appeal to retirees who are looking to downsize and capitalize on their home equity gains. With solid construction levels expected across the Vancouver and Abbotsford-Mission metropolitan areas, the upward pressure on prices will ease going into 2019 as more supply becomes available. However, average prices are expected to see

increases across all home types over the next two years as it will take some time before inventories rise.

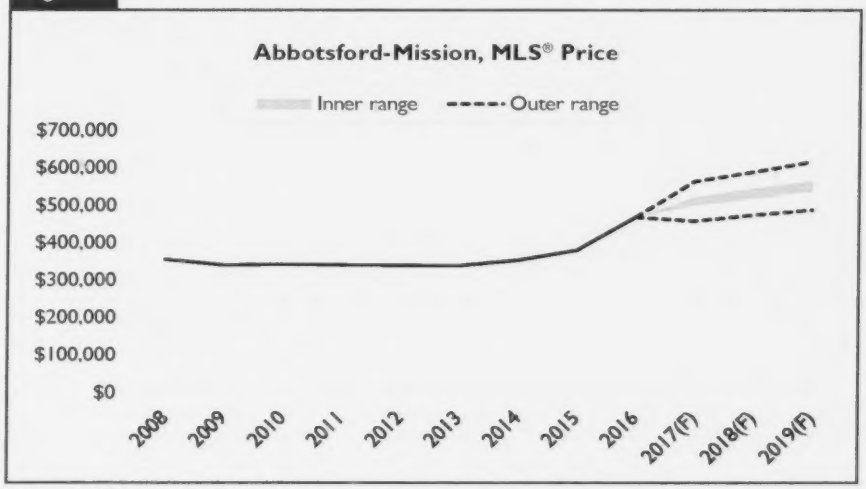
Rental Market

Vacancy rates will remain below 1% through the forecast period due to a lack of new purpose-built rental apartments and low inventories of multi-family homes on the resale market. Migration and the growth of the young adult population will further fuel rental demand as these demographics have a higher tendency to rent. Given that average home prices have been rising faster than wages, residents who may be seeking to move into home ownership may have to rent longer in order to save for a down payment. Our forecast nonetheless projects a slight rise in the primary rental market vacancy rate in 2018 and 2019 due to the growth of the secondary rental market, where more secondary suites and apartment condominiums are being built and rented; however, the rental market will remain tight in absolute terms, resulting in average rents increasing faster than inflation.

Economic and Demographics

After holding steady in 2016, total employment will pick up in 2017 before seeing slower growth in 2018 and 2019. Employment growth will be supported by the wholesale and retail trade, construction and manufacturing industries as investment in residential construction continues; however, a strengthening Canadian dollar and an uncertain international trade environment may put some downward pressure on economic growth. The population of the Abbotsford-Mission CMA will grow steadily as more affordable housing options and growing employment opportunities attract new residents. As a result, we expect intraprovincial migration to be a contributing factor to the overall population growth over the forecast period. In contrast, interprovincial migration to the Abbotsford-Mission CMA is expected to play a smaller role as the economic fortunes of other provinces, particularly Alberta, continue to improve.

Figure 7



Source: CREA (F): Forecast
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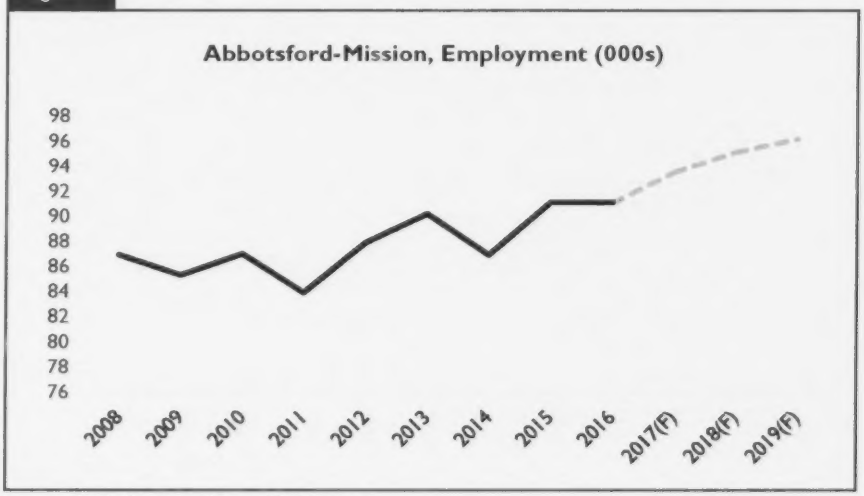
Figure 8



Source: Statistics Canada (F): Forecast
Forecast: CMHC

Forecast Summary
Abbotsford-Mission CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	251	393	469	375	425	405	455	375	425
Multiples	248	413	667	1,110	1,290	975	1,145	940	1,110
Starts - Total	499	806	1,136	1,555	1,645	1,415	1,565	1,345	1,505
Resale Market									
MLS® Sales	2,592	3,482	4,707	3,995	4,205	3,860	4,140	3,810	4,110
MLS® Average Price($)	353,683	379,916	468,388	499,500	522,500	517,500	546,500	537,000	567,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	3.1	0.8	0.5	0.5	0.6	0.7
Two-bedroom Average Rent (October)($)	835	864	915	949	974	994
One-bedroom Average Rent (October)($)	684	712	744	780	808	830
Economic Overview						
Population	180,886	184,175	186,792	188,890	191,106	193,305
Annual Employment Level	86,900	91,100	91,100	93,600	95,200	96,200

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Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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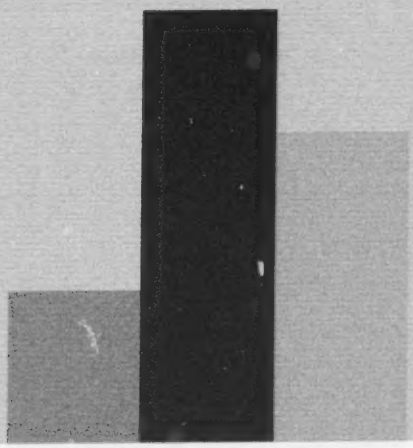

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